

[Doc. No. 44]

**THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY
CAMDEN VICINAGE**

BRASS SMITH, LLC,	:	
	:	
Plaintiff,	:	
	:	
v.	:	Civil No. 09-06344 (NLH/JS)
	:	
RPI INDUSTRIES, INC.	:	
	:	
Defendant.	:	
	:	

OPINION AND ORDER

This matter is before the Court on defendant/counterclaimant RPI Industries, Inc.’s (hereinafter “RPI”) “Motion to Stay Pending Reexamination of U.S. Patent 6,588,863” [Doc. No. 44]. Plaintiff Brass Smith, LLC (hereinafter “BSI”) opposed RPI’s Motion to Stay [Doc. No. 46] and the Court received RPI’s reply [Doc. No. 48]. The Court held oral argument on RPI’s motion. For the reasons to be discussed, RPI’s motion is GRANTED and this civil action shall be stayed pending the reexamination of U.S. Patent 6,588,863 (hereinafter “’863 patent”) by the United States Patent and Trademark Office (hereinafter “PTO”).

Background

BSI filed its complaint against RPI on December 16, 2009, alleging infringement of BSI’s ‘863 patent, titled “Sneeze Guards and Methods for Their Construction and Use” (Complaint ¶ 4, Doc. No. 1). On March 24, 2010, RPI filed its answer and counterclaim, alleging that the ‘863 patent is invalid, void and unenforceable [Doc. No. 16]. According to RPI, “on June 9, 2010, a

Request for Reexamination of the '863 patent claims was filed by the law firm of Jordan and Hamburg, LLP, on behalf of a third party not related to this litigation" (hereinafter "Third Party Request"). (Memo. of Law at 2). RPI further represents that the Third Party Request for reexamination was granted by the PTO on July 23, 2010. (Id. at 2, n.1).

RPI filed its own "Request for Reexamination" (hereinafter "RPI Request") on September 17, 2010, claiming that "as a result of its own independent searching, RPI discovered prior art that raises substantial additional grounds for invalidating the claims of the '863 patent." (Id.). Both the Third Party Request and RPI's reexamination request are currently pending before the PTO.¹ On October 18, 2010, counsel for BSI sent a letter to the Court and to counsel for RPI, indicating that it has agreed to participate in the PTO's "Pilot Program for Waiver of Patent Owner's Statement in Ex Parte Reexamination Proceedings," which is "designed to reduce the pendency time of reexamination proceedings." (Doc. No. 59, hereinafter "BSI Letter"). BSI's letter further asserts that BSI has contacted RPI and offered to resolve RPI's motion by stipulating to a stay of the case during the pendency of the reexamination proceedings, so long as RPI refrains from selling, referencing, or showing the allegedly infringing product during the same time period. (Id.). According to the letter, as of October 18, 2010, RPI has not responded to BSI's proposal. (Id.). Not having heard from the parties on the issue, the Court assumes this same situation exists as of the date of this Opinion and Order.

¹On October 13, 2010, counsel for RPI sent a letter to the Court and to counsel for BSI, indicating that "RPI filed its Petition for Reexamination on September 17, 2010" and that "the PTO kicked back the original filing on a technical matter, the matter ha[s] been dealt with and the Petition [was] amended and refiled on September 29, 2010." (RPI Letter). According to RPI, September 29, 2010 commenced the 90-day period within which the PTO must act on the Petition. (Id.).

Discussion

RPI is moving to stay the case until the PTO issues its rulings on the outstanding reexamination requests regarding the '863 patent. The issue of whether to stay a patent case pending a reexamination has been addressed in a number of cases in this District and other jurisdictions. Courts have delineated the costs and benefits to staying proceedings pending a reexamination by the PTO.

[A]dvantages include: (1) a review of all prior art presented to a court by the PTO, with its particular expertise; (2) the potential alleviation of numerous discovery problems relating to prior art by PTO examination; (3) the potential dismissal of a civil action should invalidity of a patent be found by the PTO; (4) encouragement to settle based upon the outcome of the PTO reexamination; (5) an admissible record at trial from the PTO proceedings which would reduce the complexity and length of the litigation; (6) a reduction of issues, defenses and evidence during pre-trial conferences; and (7) a reduction of costs for the parties and a court.

Eberle v. Harris, C.A. No. 03-5809 (SRC), 2005 WL 6192865, at *2 (D.N.J. Dec. 8, 2005) (citing GPAC, Inc. v. D.W.W. Enterprises, Inc., 144 F.R.D. 60, 63 (D.N.J.1992) (internal citations omitted)). Courts have also pointed out the drawbacks of a stay: “a stay in litigation inevitably causes further delay in an already lengthy process, and could potentially harm [the opposing party]. [The opposing party] ha[s] a right to have their day in court, and more and more in American jurisprudence the goal is to have that day sooner rather than later.” Id. While courts weigh the costs and benefits associated with granting a stay pending reexamination of a patent, “courts have noted that granting a stay pending reexamination is favored.” ICI Uniqema, Inc. v. Kobo Prods., Inc., C.A. No. 06-2943 (JAP), 2009 WL 4034829, at *1 (D.N.J. Nov. 20, 2009) (citing Alltech, Inc. v. Cenzone Tech, Inc., C.A. No. 06-0153 (JM), 2007 WL 935516 (S.D. Cal. March 21, 2007) (“[t]here is a liberal policy in favor of granting motions to stay proceedings

pending the outcome of reexamination proceedings”); Cross Atl. Capital Partners, Inc. v. Facebook, Inc., C.A. No. 07-2768 (JRP), 2008 WL 3889539, at *1 (E.D.Pa. Aug. 18, 2008) (“Stays are particularly appropriate when the reexamination result might assist the court in making a validity determination or would eliminate the need to make an infringement determination”).

Ultimately, the decision of whether or not to stay a patent case during reexamination is discretionary. Stryker Trauma S.A. v. Synthes (USA), C.A. No. 01-3879 (JLL), 2008 WL 877848, at *1 (D.N.J. Mar. 28, 2008) (citing Viskase Corp. v. American Nat’l Can Co., 261 F.3d 1316, 1328 (Fed.Cir.2001); Ethicon, Inc. v. Quigg, 849 F.2d 1422, 1426-27 (Fed.Cir.1988)); see also ICI Unigema, supra, at *2. In deciding whether to stay a matter pending reexamination courts have developed a three-part test (hereinafter referred to as the “Xerox factors”): “(1) whether a stay would unduly prejudice or present a clear tactical disadvantage to the non-moving party; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether discovery is complete and whether a trial date has been set.” Stryker Trauma, supra, at *1 (citing Xerox Corp. v. 3Com Corp., 69 F. Supp 2d 404, 406 (W.D.N.Y. Feb.18, 1999)). “Other courts have provided alternative phrasing for this standard, ‘In deciding whether to grant a stay, the court must weight the benefits of the stay against the costs.’” Id. (citing Motson v. Franklin Covey Co., C.A. No. 03-067 (RBK), 2005 U.S. Dist. LEXIS 34067, at *1 (D.N.J. Dec. 16, 2005); Middleton, Inc. v. Minnesota Mining & Mfg. Co., C.A. No. 03-40493, 2004 WL 1968669, at *3 (S.D.Iowa Aug. 24, 2004)). The Court will now address the Xerox factors described above.

A. Prejudice

The first factor for consideration regarding RPI’s request for a stay is “whether a stay

would unduly prejudice or present a clear tactical disadvantage to the non-moving party.” Xerox Corp., supra, at 406. In making this determination, the Court should consider whether any disadvantages of the inherent delay are outweighed by the advantages that come along with allowing the PTO to complete reexamination. See ICI Uniqema, supra, at *2.

RPI argues that BSI will not be unduly prejudiced if a stay is granted because “[BSI] stands to benefit from simplification of the issues, savings of time and money, and clarification of the rights afforded by the reexamination and the concurrent stay of this litigation.” (Memo. of Law at 4). In addition to averring that it is not purposefully seeking to delay the proceedings in the case, RPI argues that instead of causing prejudice to BSI, RPI itself will be prejudiced if a stay is not granted, as there is a chance that the PTO will eventually invalidate the ‘863 patent as a result of the pending reexaminations. Such an invalidation after months or years of continuing litigation will represent a substantial waste of the resources of the parties and the court.

BSI claims it will be unduly prejudiced if a stay is granted for three reasons. First, BSI argues that RPI is purposefully seeking to deny BSI its day in court, and the present motion represents one of many attempts by RPI to delay the proceedings in this matter. (Brief at 6-7).² Second, BSI argues that RPI is a direct competitor in a unique industry, and BSI will “lose hard-earned market share and position to a direct competitor during the delay period.” (Id. at 7).³

²BSI points to several prior instances that allegedly demonstrate RPI’s dilatory tactics, such as: seeking extensions of time to file its answer and response to BSI’s Motion to Dismiss, initiating a “last-minute” rescheduling of the Rule 16 conference, delaying responding to BSI’s discovery requests, and delaying serving its invalidity contentions and claim construction materials. Id.

³ BSI relies on Heraeus Electro-Nite Co., LLC v. Vesuvius USA Corp., C.A. No. 09-2417 (AB), 2010 WL 181375 (E.D. Pa. Jan. 11, 2010) in making this argument: “courts have been reluctant to grant stays where...the parties are direct competitors...In such situations, stays are denied where there is concern that the patent owner will be irreparably harmed because the accused product will continue to gain market share during the pendency of the stay.” Id. at *1 (citing NIDEC Corp. v. LG Innotek Co.,

Third, “staying this litigation would encourage RPI to market infringing products during The North American Association of Food Equipment Manufacturers Show (‘The NAFEM Show’), and potentially encourage other competitors to do the same.” (Id. at 9).⁴

The Court is not persuaded that BSI will be unduly prejudiced by the entry of a stay in the case. In Sabert Corp. v. Waddington North America, Inc., C.A. No. 06-5423 (JAG), 2007 WL 2705157 (D.N.J. Sept. 14, 2007), the court granted a stay where it “did not unearth any evidence to support the notion that [the movant’s] motivation in seeking reexamination is purely dilatory.” Id. at *6. As in Sabert Corp., BSI has not established that RPI’s motion to stay the case evinces a purposeful, tactical delay. The Court has been closely managing the case since its filing and it has not seen any evidence that BSI has attempted to purposely delay its resolution. What BSI argues are purposeful stalling tactics are the realities of complex litigation. In addition, in cases where stays have been denied, courts have noted that the reexamination filing was done as a tactic to delay the proceedings. See Xerox Corp., supra, at 407 (denying a stay where there was evidence that “the movant’s request for a stay has at least some dilatory tactical motive behind it”). This situation is not applicable here since a third-party filed the reexamination request before RPI was aware of its existence. (See Memo. of Law at 2). Indeed, although not applicable to this case, courts have even granted a stay where it was determined that a movant’s actions were motivated by tactical advantage. See Stryker Trauma, supra, at *2 (finding that “denial of a stay because one party timed legitimate procedural actions in such a manner as to

Ltd., C.A. No. 07-108, 2009 U.S. Dist. LEXIS 46123, at *4, 2009 WL 3673433 (E.D.Tex. Apr. 3, 2009); Innovative Office Prods., v. SpaceCo, Inc., C.A. No. 05-4037 (LFE), 2008 U.S. Dist. LEXIS 67500, at *11, 2008 WL 4083012 (E.D.Pa. Aug. 28, 2008)).

⁴This third argument is entirely speculative and is not supported with any evidence.

best serve its own interests . . . does not present the kind of inequitable action warranting a denial of the stay”).

Further, the Court finds that the delay attendant to a stay is not sufficiently prejudicial to BSI to warrant denying RPI’s motion. As RPI states in its brief, “it is well established that the inherent delay caused by reexamination is insufficient to establish undue prejudice to a patent holder.” (Memo. of Law at 4) (citing Stryker Trauma, supra, at *2 (internal citations omitted)); see also Everett Labs., Inc. v. River’s Edge Pharms., LLC, C.A. No. 09-3458 (JLL), 2009 WL 4508584 (D.N.J. Nov 24, 2009) (“[D]elay, alone, is not dispositive on the issue of prejudice, particularly given that such delay is common to all stayed cases”). Moreover, “any delay would not be for such a protracted or indefinite period to constitute an abuse of discretion.” Cima Labs, Inc. v. Actavis Grp. HF, C.A. No. 07-893 (DRD), 2007 U.S. Dist. LEXIS 41516 (D.N.J. June 7, 2007) (internal citations omitted). Indeed, BSI itself recently informed the Court that it agreed to participate in the PTO’s Pilot Program, which may reduce the pendency of the reexamination by approximately three to five months. (See BSI Letter at 1) (internal citations omitted).

Although there is some support for BSI’s “direct competitor” argument, BSI has not referenced any cases from this District where a stay was denied because of the parties’ status as direct competitors. Furthermore, BSI’s assertion that RPI is a direct competitor is conclusory. Although the business of BSI and RPI may overlap in a relatively modest respect,⁵ BSI has not demonstrated that the parties are direct competitors in the sense referred to in Heraeus Electro-

⁵The gross revenue generated by RPI from the sale of the allegedly infringing product is less than \$90,000. (RPI Reply at 9).

Nite Co., LLC, supra note 3.⁶ Therefore, the first Xerox factor weighs in favor of a stay.

B. Simplification of Remaining Issues

The second factor for consideration in evaluating RPI's motion for a stay is "whether a stay will simplify the issues in question and trial of the case." Xerox Corp., supra, at 406.

RPI cites to statistics from the PTO to argue that a stay will simplify issues in the case. Namely, "the most recent statistics indicate that approximately 75% of claims subjected to reexamination pursuant to a third party request do not survive in the form in which they existed prior to reexamination." (Memo. of Law at 6).⁷ Specifically, "in 62% of the requests [for reexamination], claims are modified...[I]n 75% of the requests, reexamination certificates are issued with either (i) all claims cancelled, or (ii) some claims cancelled and/or modified." (RPI Reply at 9).

In opposition, BSI provides several arguments to explain why granting a stay will not narrow or simplify the disputed issues in the case. First, there is no overlap between the prior art cited in the Third Party Reexamination Request and the prior art cited in RPI's invalidity

⁶In Heraeus, the court does not explicitly detail the analysis it undertook in finding the parties to be direct competitors. However, Heraeus relies on Innovative Office Prods., supra note 3, at *3, where the court found parties to be direct competitors and denied a stay after the judge in a related bankruptcy case determined that: "[defendant's] operations...had a negative impact on [plaintiff] and...the alleged claims for infringement and royalties are significant ... [s]hould either the patent litigation or the PTO examination take one year to complete, the [defendant's] projected sales over that time could range from \$3.6 to \$6 million. Even the possibility that all, or a substantial portion of this revenue could be derived from an infringing product line, poses a serious risk of irrevocable harm to [plaintiff] through lost market share and sales revenue." Id. (citing In re SpaceCo Bus. Solutions, Case No. 07-12977 (Bankr.D.Colo. 2007)). In the present case, BSI has not provided similar proof to substantiate its assertion that RPI is its direct competitor.

⁷RPI's "Exhibit 'E'" contains documentation referred to as "United States Patent and Trademark Office. (June 30, 2010) Ex Parte Reexamination Filing Data (Ex Parte Reexamination Filing Data from July 1, 1981 - June 30, 2010)."

contentions. (BSI Brief at 1). As such, the prior art cited in the Third Party Request will not invalidate the claims of the patent, and discovery in the present litigation will not be affected by the Third Party Request. (Id. at 10). Moreover, according to the PTO's statistics, "only 13% of third party initiated reexaminations result in all claims being cancelled." (Id. at 11). Finally, RPI's own reexamination request "will not result in simplification of the issues because under the applicable rules, even after a reexamination RPI will be free to re-litigate the same prior art in this Court, forcing this Court to reconsider the same issues considered by the PTO." (Id. at 2).

BSI's claim that a stay has no potential for simplifying issues in the case is unavailing. As noted in Motson: "reexamination ha[s] the potential to eliminate trial on the issue altogether or at least reduce the costs associated with litigating it. And, if the PTO upholds the validity of plaintiff's patent, the plaintiff's rights will only be strengthened, as the challenger's burden of proof becomes more difficult to sustain." See supra, at *3 (internal quotation marks and citations omitted). See also Sabert Corp., supra, at *6 (noting that "[t]he stay, while adding time to the litigation, is a minimal expenditure of judicial economy for what might be an optimal efficiency gain. The reexamination period may produce information that narrows the issue before this court").

Although BSI argues that due to lack of overlap the Third Party Reexamination is irrelevant to RPI's defenses in the case, the PTO has preliminarily determined there to be a material issue as to the '863 patent based on the Third Party Request. Moreover, BSI's reference to the PTO statistics to highlight the low probability that all claims will be dismissed as a result of the reexamination is not controlling. In its motion, RPI is not asserting that a stay should be granted because the suit will likely be dismissed outright as a result of the pending

reexaminations. Instead, RPI argues that the outcome of the reexaminations might serve to clarify and simplify the claims at issue in the litigation, in addition to the aforementioned thirteen percent (13%) chance that all claims will be cancelled. Lastly, BSI's argument that RPI will be free to re-litigate the same prior art in this court, resulting in duplicitous proceedings, added cost, and delay, instead of simplification, does not weigh heavily in the Court's decision. The patent litigation system contemplates the possibility that two proceedings will take place, and the corresponding delay does not play a major role in the Court's decision to grant or deny a stay. See Stryker Trauma, supra, at *1 (“[t]here is no conflict between a reexamination and a challenge to a patent in federal court, despite the fact that the two forums may come to differing conclusions on the same patent; the PTO and the district courts apply different standards and come to different legal conclusions”) (internal citation omitted).

The status of the pending reexamination requests also factors into the Court's decision to grant a stay. In Eberle, supra, the Court granted a stay based on the fact that one reexamination request had been granted and another was pending. (RPI Reply at 4). Although the defendant in Eberle was responsible for both reexamination requests, the underlying rationale for the Court's decision to grant a stay is applicable here. See Eberle, supra, at *3 (“With one PTO reexamination granted and another potential reexamination pending, the debate is not whether or not this civil action will be affected, but rather the extent of said affect. The benefits of waiting for the PTO's reexamination(s) far outweigh the burden of waiting for their decision(s). The dynamics of the litigation in issue will potentially alter, and with that alteration, the needs of the parties, the discovery they seek, the witnesses they will name, perhaps the very basis for the litigation will change”).

For the foregoing reasons, the second Xerox factor, which addresses “whether a stay will simplify the issues in question and trial of the case,” weighs in favor of granting a stay.

C. Effect of the Stay on the Trial Schedule and Discovery

The third and final Xerox factor for consideration in evaluating RPI’s motion for a stay is “whether discovery is complete and whether a trial date has been set.” Xerox Corp., supra, at 406. RPI argues the case is in its early stages, noting that “the claim construction process has barely begun... [and] [t]he current scheduling order does not contemplate a trial date.” (Memo. of Law at 7). BSI counters by arguing that the stay would have an adverse effect on the trial schedule, as “[d]iscovery has been open for almost five months...[and] [t]he parties’ efforts have distilled the issues in dispute and moved the case well down the road toward trial.” (Brief at 2).

At the present time, this litigation is still in its relatively early stage, the parties are not “deep” into discovery, and no trial date has been set. In fact, the parties have yet to take any depositions, relevant documents remain to be produced, expert reports have not been served, and the Markman hearing has not been scheduled. The third Xerox factor, therefore, weighs in favor of granting a stay. Xerox Corp., supra, at 406.⁸

Although every case is fact specific, almost every reported New Jersey District Court opinion that has considered the issue has granted a stay where a reexamination request was pending. See, e.g., ICI Uniqema, supra; Stryker Trauma, supra; Eberle, supra; Sabert Corp., supra; Cima Labs, supra; Motson, supra; GPAC, supra. This case is readily distinguishable from

⁸In Stryker Trauma, the court granted a stay at a far more advanced stage of the litigation than this case. In that case, a stay was granted, “following extensive pretrial motion practice by the parties” and an infringement trial, which resulted in the jury returning a verdict in favor of the plaintiff on the claims of infringement. See supra, at *1. Similarly, in ICI Uniqema, the court granted a stay three months after its Markman decision was entered. See supra, at *2.

the New Jersey case BSI relies upon. In V. Mane Fils, S.A. v. Int'l Flavors & Fragrances, Inc., C.A. No. 06-2304 (DEA) (D.N.J. Aug. 31, 2009), the Court issued an order denying a stay where the non-moving party was about to take critical depositions after a long and contentious discovery period. Id. In addition, in GPAC, the Court noted: "Most often, cases have been denied a stay due to the late stage of litigation, the fact that discovery was or would be almost completed, or the matter had been marked for trial." See supra, at 64. This situation does not exist here.⁹

Conclusion

Based upon the relevant factors the Court considered, and the foregoing analysis of same, RPI's motion will be granted. Accordingly, for all the foregoing reasons,

IT IS hereby ORDERED this 1st day of November 2010 that RPI's "Motion to Stay Pending Reexamination of U.S. Patent 6,588,863" [Doc. No. 44] is GRANTED; and

IT IS FURTHER ORDERED that this matter shall be administratively terminated without prejudice to the right of any party to restore the case to the active docket upon written notice to the court after the USPTO rules on the outstanding reexamination requests regarding the '863 patent.

/s/ Joel Schneider
JOEL SCHNEIDER
United States Magistrate Judge

⁹To date the PTO has not ruled on RPI's reexamination request. However, even if RPI's request is denied the Court finds that a stay is appropriate in view of the Third Party Request that was granted.